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To: The Governor's Advisory Council on School Funding

From: Amy Carlson
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RE: Tax equity effects of equalizing district general fund BASE budgets at the county level

This paper considers the tax equity effect of equalizing district general fund BASE budgets at the county level. The over-BASE area is assumed to continue to be funded by the district in the same manner it is today.

Several assumptions needed to be made in order to calculate these effects. The primary assumptions for current district general fund sources are:

- 1) All non-levy revenue from HB 124 block grants is retained at the state for redistribution to districts. The amount retained from the district general fund budgets is \$43.6 million per year.
- 2) The district retains fund balance re-appropriated and uses it in the above BASE area to reduce local mills. Fund balance re-appropriated that is applied to the districts BASE budgets is approximately \$10 million per year.
- 3) The district retains non-levy revenue generated by the district, such as interest, lease rental, and penalty and interest received by the district and uses it in the above BASE area to reduce local mills. It is estimated that the combination of these sources is \$6 million per year.
- 4) Remaining non-levy revenue sources currently distributed by the county to the schools would remain at the county for funding the district BASE budgets.
- 5) The combination of the first three assumptions increases the area shared by local levies and state general fund in the below BASE area by approximately \$60 million.

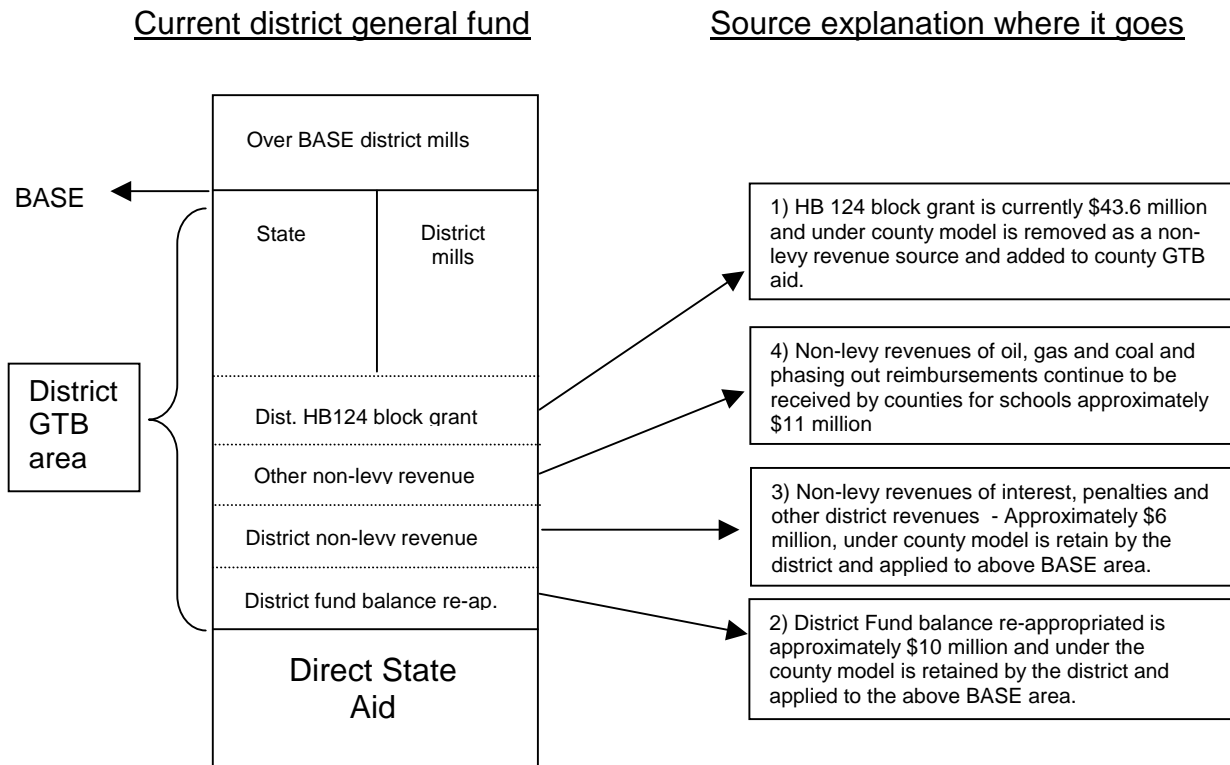
At the October 4th meeting, the Council discussed 1) above within the discussion of how to redistribute HB 124 block grants. Numbers 2) and 3) above were not considered in the same analysis. Because the option to equalize at the county level removes the

BASE GTB area funding from the district level and places it at the county level, it seems appropriate to move these items to the above BASE area to avoid three levels of government in the calculation of funding the BASE area of the budget.

When comparing the options presented in this paper, the reader needs to remember that the district equalization options include 2) and 3) or approximately \$16 million of non-levy revenue and fund balance re-appropriated in the BASE area, while the county equalization option allows the district to apply this revenue to over-BASE area or district funding area. This will lower above BASE mills of the district, while requiring BASE mills to be relatively higher. The above BASE mill levy reduction is not considered in Table 1 on the following page.

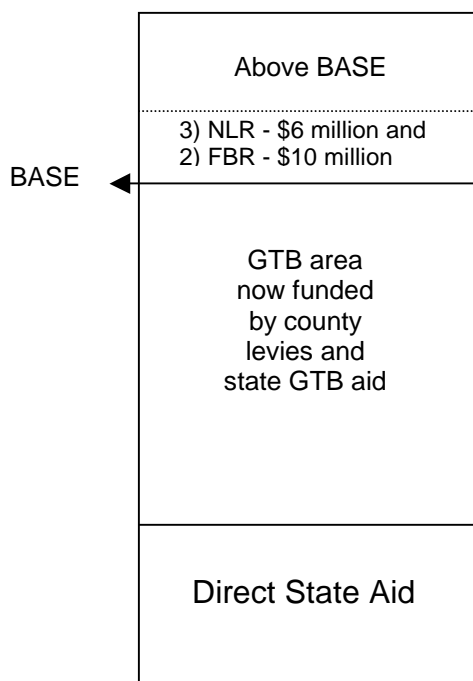
The graphics on the following page show how the revenues flow between current law and the proposed county equalization. References to 1), 2), 3), and 4) refer to the assumptions above.

The following graphic demonstrates the current funding of the district general fund.

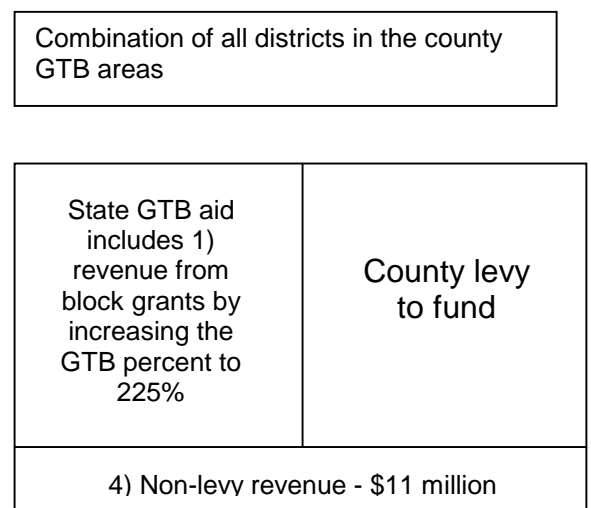


The following graphic illustrates the proposed district general fund funding

District



County



Tax equity impacts of equalizing BASE levies at the county level – Table 1

If the described countywide equalization is implemented as described and the GTB percent is increased to 225% (the level that makes the cost neutral to the state), tax equity improves significantly. Concentration of elementary levy districts between 60 and 80 mills includes 88.4% of all elementary levy districts. No taxpayer is paying zero BASE mills.

The elementary levy districts that persist outside the area of most are those with either very large taxable values relative to the number of students, high oil, gas, and coal non-levy revenue, or both high taxable value and high non-levy revenue.

County Equalization of BASE Mills with GTB at 225% Compared with Current Law - FY 2002

Table 1

| | Consolidated Elementary & High School Mills | | | |
|-----------------------------|--|---------------------|-----------------|---------------------|
| | District Model | Percent Of Total | County Model | Percent Of Total |
| 0 to 10 group | 13 | 3.2% | 0 | 0.0% |
| 10's group | 15 | 3.7% | 2 | 0.5% |
| 20's group | 35 | 8.6% | 6 | 1.5% |
| 30's group | 43 | 10.6% | 0 | 0.0% |
| 40's group | 60 | 14.8% | 5 | 1.2% |
| 50's group | 43 | 10.6% | 34 | 8.4% |
| 60's group | 73 | 18.0% | 201 | 49.6% |
| 70's group | 89 | 22.0% | 157 | 38.8% |
| 80's group | 27 | 6.7% | 0 | 0.0% |
| 90's group | 7 | 1.7% | 0 | 0.0% |
| 100's group | 0 | 0.0% | 0 | 0.0% |
| Total Elem Districts | 405 | 100.0% | 405 | 100.0% |
| Maximum Mills | 99.2 | | 75.5 | |
| Minimum Mills | - | | 18.3 | |

Explaining Table 1

Definition of elementary levy district in Table 1

Some elementary districts cross county or high school boundaries. In order to capture an accurate calculation of combined elementary and high school BASE mill levies, these districts are broken into smaller units. For example, an elementary district that crosses a county line will be counted as two separate elementary levy districts and the

corresponding high school levies will be added to get the correct comparison.

Current law distribution of BASE mills by district

Currently there is a wide dispersion of combined elementary and high school BASE mills among taxpayers. Combined elementary and high school BASE mill levies vary from zero to nearly 100. As shown in Table 1, there is little concentration of levies at any given mill levy group.

Fiscal impact to the state

As designed, this proposal has no fiscal impact to the state. Since counties are more equalized than districts, the cost to fund GTB at 175% is less than for districts. Increasing the guarantee percentage to 225% and allowing districts to keep the fund balance re-appropriated and certain non-levy revenue sources (\$16 million) offset the lower cost of GTB.

Other school funding issues

The tax equity improvement between the GTB percentage of 175% and 225% is not significant as almost all counties are receiving GTB aid at 175%. Increasing to 225% does, however, reduce the number of county mills needed in the GTB area.

The council could choose a lower GTB percentage such as 200% and the results it would not redistribute the entire \$43.6 million. The cost of a proposal that would increase the GTB percentage to 200% would be \$17.3 million. This would leave about \$13.6 million for any other school funding proposals that the council might consider.

The council could choose to use the remaining block grants revenue to address specific concerns in the funding formula. Some of the areas the council has shown interest in funding include: declining enrollments, or disproportionate funding between elementary schools and high schools.

Conclusion:

Countywide equalization causes a significant improvement in tax equity among taxpayers in the BASE funding of schools. As taxes become more equal, taxpayers currently paying higher BASE mills will pay less and taxpayers paying lower BASE mills will pay relatively more. There are winners and losers in comparison to the current system.

Issues and options

1. Does the council want to equalize BASE budgets at the county level?
2. Should part or all of the \$30.9 million remaining reduction in cost be used to:
 - increase the GTB percentage,
 - address declining enrollments, and/or
 - make other improvements in the funding formula?